Homeowner
Protection Office

2005 – 2008

SERVICE PLAN

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National Library of Canada Cataloguing in Publication Data
British Columbia. Homeowner Protection Office.
Service plan. — 2002/2005-

Annual
Continues: British Columbia. Homeowner Protection Office. Performance plan. ISSN 1496-2691.
ISSN 1499-7789 = Service plan – British Columbia. Homeowner Protection Office

1. British Columbia. Homeowner Protection Office – Periodicals. 2. Home ownership – Government policy - British Columbia - Periodicals. 3. Consumer protection - British Columbia - Periodicals. I. Title. II. Title: Homeowner Protection Office service plan.

HD7287.82.C32B732 353.5'5 C2002-960004-9

105-04495/

Honourable Murray Coell
Ministry of Community, Aboriginal and
Women's Services
Minister Responsible for Housing
Province of British Columbia

Dear Minister,

It is an honour to present to you the 2005-2008 Service Plan for theHomeowner Protection Office (HPO).

Since the *Homeowner Protection Act (Act)* was passed and the HPO was established six years ago, a great deal of progress has been made to strengthen consumer protection for purchasers of new homes and to bring about improvements in the quality of residential construction. With the assistance of the HPO, British Columbia's residential construction industry has shifted from a crisis situation to a leadership role in the provincial economy. More than 100,000 new homes have been built by Licensed Residential Builders and have home warranty insurance — the strongest construction defect insurance in Canada. The application of improved building science and technology coupled with the establishment of standards and best practices in the industry have also contributed to this commendable transition. Rehabilitation of the reputation of wood frame construction has expanded the market potential for British Columbia's wood products at home and abroad.

Buyers of new homes in British Columbia are better protected now than they ever have been. Homebuyers have exhibited a considerable increase in consumer confidence. In addition, more than 75% of the leaky homes that have been repaired properly under the provisions of the *Act* and regulations now have regained all, or nearly all, of the value formerly lost.

Under your direction, the HPO remains a Crown corporation responsible for: licensing residential builders and building envelope renovators, monitoring the home warranty insurance system provided by the private sector, research and education, and financial assistance for owners of leaky homes.

Pursuant to government's recent approval of the Futures Report, a document containing the HPO Board's recommendations for the *Act* and the HPO, we have commenced the implementation of the five key objectives contained in this report. The following Futures Report objectives form the basis for this year's Service Plan:

Ken MacLeod, Chairperson

1. professionalization of the residential construction sector (consultation period pending)
2. informed and protected consumers
3. continued viability of the home warranty insurance system
4. to become a strategic centre for building industry research, and
5. an aligned, focused and capable organization.

Our revised and updated mission statement, "To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk," remains in keeping with the mandate of the *Act* and guides us in our efforts to achieve continuous improvement in the service we provide to our industry and consumers in the future.

Accountability Statement

The Homeowner Protection Office 2005-2008 Service Plan was prepared under the direction of the Board of Directors in accordance with the Budget Transparency and Accountability Act. The Board is accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions and identified risks as of December 31, 2004 have been considered in preparing the plan. The Board is accountable for ensuring the Homeowner Protection Office achieves its specific objectives identified in the plan and formeasuring and reporting actual performance.

Sincerely,

K MacLeod

Ken MacLeod
Chairperson

The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in 1998 in response to the need to introduce consumer protection legislation and regulatory improvements within British Columbia's residential construction industry.

The HPO was established under the *Homeowner Protection Act (Act)*. The main purposes of the *Act* are to strengthen consumer protection for buyers of new homes and help bring about improvements in the quality of B.C.'s residential construction.

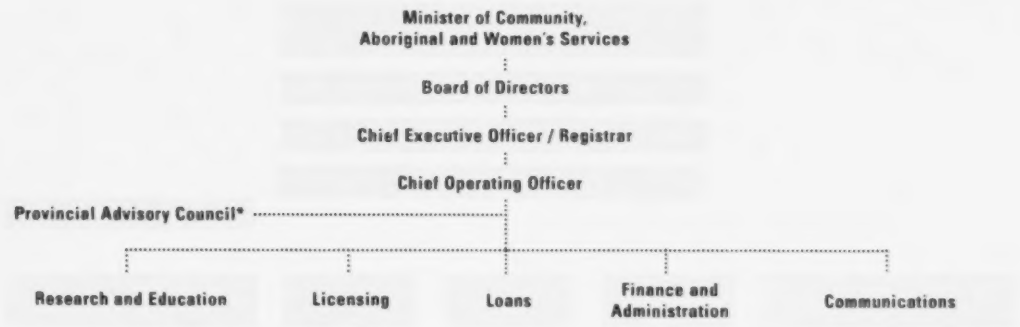
The HPO, with a staff of 36, is responsible for:

- licensing residential builders and building envelope renovators in B.C.
- monitoring the performance of the third-party home warranty insurance system
- research and education designed to benefit the residential construction industry and consumers, and
- financial assistance to owners of leaky homes in the form of the Reconstruction Loan Program and the PST Relief Grant.

The HPO is based in Vancouver and is responsible for delivering its programs province-wide. Its principal markets are the residential construction industry in which it performs its licensing, research and education functions, and home warranty insurance which is provided by the private sector and monitored by the HPO.

Corporate Governance

The HPO reports to the Minister of Community, Aboriginal and Women's Services and is governed by a seven-member Board of Directors appointed by the Lieutenant Governor in Council. The mandate of the HPO Board is to approve long-term strategies consistent with the shareholder's objectives and monitor the management of the HPO.



* The Provincial Advisory Council on Homeowner Protection provides advice to the CEO relating to the *Homeowner Protection Act* and operations of the HPO.

Board of Director Committees:

- Audit and Finance Committee – Assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.
- False Owner-builder Task Group – Supports the Board by reporting on and providing recommendations related to the abuse of the owner-builder exemption.
- CEO Performance Evaluation Committee – Supports the Board by administering the Performance Evaluation Plan for the CEO.

Department Responsibilities

RESEARCH AND EDUCATION	LICENSING	LOANS	FINANCE AND ADMINISTRATION	COMMUNICATIONS
Building science research Consumer/industry education and training Dissemination of research results and support of establishing "best practices" Provision of input and advice on amendments to the building code	License residential builders and building envelope renovators Maintain registry of licensed builders and building envelope renovators Administer the *Homeowner Protection Act* and regulations as they pertain to residential builder licensing, home warranty insurance and exemptions for residential construction Collect license fees	Delivery of the Reconstruction Loan Program Administration of the PST Relief Grant Program Participation at on-site strata meetings to provide information on financial assistance programs	Financial reporting Human resources Information systems Administration of the HPO	Issues management, communications planning and media relations Development and implementation of strategies for consumer and industry communications Management of information line, website, events and publications Support for HPO's education mandate

Strategic Foundation

In 2004 the Homeowner Protection Office Board of Directors revised and updated the strategic foundation as part of the Futures Report recommendations. The strategic foundation remains in keeping with the mandate of the *Homeowner Protection Act* to increase consumer protection for buyers of new homes and bring about an improvement in the quality of residential construction.

Our Vision

A professional organization that directly acts to enable a robust, respected, residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

The vision stated in the previous year's Service Plan was: a responsive Crown corporation leading an improvement in the quality of residential construction and increased homebuyer protection in British Columbia.

Our Mission

To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

The mission stated in the previous year's Service Plan was: to develop and help maintain confidence in British Columbia's residential construction by: administering and continuously improving the residential builder licensing system, monitoring the mandatory, third-party home warranty insurance system, maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, as well as providing financial assistance to qualified owners of leaky homes.

Our Values

We are guided by our commitment to:

- fairness
- competence
- common ground, and
- usefulness.

The values stated in the previous year's Service Plan were: integrity, fairness, responsiveness, accountability and teamwork.

Planning Context and Key Strategic Issues

The HPO has identified key factors which may impact its operations and vision.

Implementation of the Futures Report

The Province directed the new Board of Directors to develop its recommendations for the HPO and the *Homeowner Protection Act*. The Board participated in an extensive planning process which included a thorough review of all possible delivery options and research on consumer and industry viewpoints. The result was the "Futures Report", which contains the Board's recommendations on the structure, delivery model, priorities and strategic thrusts for the HPO. The Futures Report was presented to the Minister of Community, Aboriginal and Women's Services in September 2004.

A permanent CEO was also appointed to operationalize the directions developed by the HPO Board within the context set by government.

In December 2004, the Minister provided the following approvals and direction for the recommendations contained in the Board's Futures Report:

- Strategic Thrust # 1: professionalization of the industry — approved as a goal subject to further consultation
- Strategic Thrust # 2: informed and protected consumers — approved and proceed with implementation
- Strategic Thrust # 3: viability of the warranty structure — approved and proceed with implementation
- Strategic Thrust # 4: to become a strategic centre for building industry research — approved and proceed with implementation, and
- Strategic Thrust # 5: an aligned, focused and capable organization — approved and proceed with implementation.

This Service Plan reflects the HPO's intention to implement the Board of Directors' Futures Report as directed by the Province. Some recommendations contained in the Futures Report may involve amendments to the *Homeowner Protection Act* and regulations as a means to meet the key objectives contained in the plan. The proposed changes in the legislation and regulations as well as other measures will require further consultation.

Insurance Industry Issues

Several issues in the insurance industry continue to affect the home warranty insurance market in British Columbia.

Home warranty insurance issues which have already affected or might affect the home warranty insurance market in the future include:

- the Financial Institutions Commission has commenced an investigation of one home warranty insurance broker. This investigation has affected about 300 Licensed Residential Builders that must obtain acceptance from an alternate warranty provider in order to renew their licences with the HPO, or obtain a building permit for new home construction or building envelope renovations subject to the *Homeowner Protection Act.*
- Licensed Residential Builders' difficulty in obtaining home warranty insurance for proposed large, custom-built homes, and
- increased scrutiny of the home warranty insurance system by the Financial Institutions Commission, which regulates insurance companies, and the Insurance Council of B.C., which regulates insurance brokers.

Other related insurance matters which impact the home warranty insurance system include:

- reduced availability of liability insurance for professional architects and engineers, as well as limitations placed on their policies to exclude building envelope failure related problems. This reduced availability of liability insurance has also been experienced by Licensed Building Envelope Renovators.
- the Municipal Insurance Association's continued demand to limit municipal involvement in building design inspections
- the outcome of the Civil Liability Review and the continued existence of joint and several liability, and
- the continuing concern in the industry over the issue of mold.

Owner-builder Exemption Abuse

The *Homeowner Protection Act (Act)* exempts individuals that qualify as owner-builders from the licensing and home warranty insurance requirements. Although the *Act* stipulates that only individuals intending to build a detached dwelling for their own personal use are eligible for the exemption once in any 18-month period, some land owners and unlicensed builders are abusing the system to avoid the licensing and warranty insurance requirements put in place to protect consumers.

On average, 2,500 homes are constructed by owner-builders each year. A significant portion of these homes are constructed by black-market builders.

Abuse of the owner-builder exemption results in:

- inadequate consumer protection (false owner-builder exemptions mean that new homes are not required to be built by licensed builders and are not required to have home warranty insurance). The ten-year statutory warranty on owner-built homes which makes an owner-builder personally liable for construction defects in the home for a period of 10 years provides no guarantee of a buyer's ability to recover damages.
- unfair competition for Licensed Residential Builders who comply with the legislation and must compete with black-market builders that do not contribute their share of taxation including GST, PST, capital gains and income tax.
- smaller underwriting pools for home warranty insurance providers which can result in higher premiums for coverage, and
- fewer financial resources available for the administration of the consumer protection regulations because licensing fees are not being collected.

Increased housing starts have placed additional pressure on the HPO's compliance staff to monitor and investigate potential abuse of the owner-builder exemption and other potential offences.

Sixty three percent of surveyed Licensed Residential Builders indicate that the abuse of the owner-builder exemption is at least a somewhat serious problem.

The HPO and the industry believe that changes to the *Act* and regulations are required to bring about a meaningful decrease to this black-market builder activity and increase consumer protection.

Continuation of a Strong Housing Market

The HPO derives its funding revenues primarily from licensing fees. This service plan anticipates the continuation of a strong housing market over the planning period. Housing starts will continue close to current levels with a slight dip in activity in 2005/06 as the market adjusts to anticipated higher interest rates and construction costs. Housing starts are then anticipated to return to current levels in the following year. Favourable interest rates enticed many homebuyers into the market, resulting in higher sales of both new and existing homes.

In the unlikely event that the housing market declines over the planning period, the resulting lower level of revenue would restrict the performance of other program areas of the HPO.

Skilled Labour Shortage

Trends of increased housing starts resulting from low interest rates as well as numerous major capital projects planned and underway in the province have created increased demand for skilled labour. This increased demand is anticipated to continue past the planning period of this service plan.

The supply of skilled labour is inadequate to meet the demand due to an aging workforce, the slow growth of a young replacement workforce, competition for skilled labour also needed to meet the needs of industrial, commercial and institutional construction sectors, and Canadian immigration policies that are less based on the needs for specific vocations.

Results of the shortage could include:

- delays in construction and an inability to meet demand in a timely manner
- increased housing prices as trades in short supply command higher prices for services
- compromised quality of construction that may also affect the bottom line of participating home warranty insurance providers, and
- the HPO might encounter less than optimal revenues from this impediment on residential construction.

Key Goals

The 2005-2008 Service Plan sets out a new strategic direction for the Homeowner Protection Office (HPO) that is focused on five key goals that correspond to the Futures Report:

- professionalization of the residential construction sector
- informed and protected consumers
- continued viability of the home warranty insurance system
- to become a strategic centre for building industry research, and
- an aligned, focused and capable organization.

These goals also flow from the mandate of the HPO under the *Homeowner Protection Act*. The new strategic direction will enable the HPO to generate greater value through building and maintaining consumer confidence and supporting a thriving residential construction sector in British Columbia.

Alignment with the Provincial Government's Strategic Plan

The goals contained in this Service Plan support the B.C. Government Strategic Plan's key goal of supporting a strong and vibrant provincial economy by fostering growth and consumer confidence in B.C.'s residential construction sector. This sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries such as forestry and the utilities. Strong consumer confidence in the residential construction sector contributes to greater demand for new homes, and thus creates new, higher paying jobs and employment opportunities for British Columbians.

Consumer confidence and a healthy residential construction sector also support other sectors of the provincial economy such as the forestry industry and the demand for wood products.

Key Changes from Previous Service Plan

Goals and Objectives:
This Service Plan is revisited and revised annually to take into account any changes to the planning context and strategic directions. The most significant change for the 2005-2008 Service Plan is the major revision of goals and objectives as a result of the new strategic directions established through the Board of Directors' Futures Report.

The 2005-2008 Service Plan contains five goals compared to three in last year's Service Plan. The three goals contained in the 2004-2007 Service Plan include: 1) strengthen consumer protection for homebuyers and homeowners, 2) foster an improvement in the quality of residential construction, and 3) increased research and education. The chart below summarizes key changes and linkages with respect to the 2005-2008 and 2004-2007 Service Plans.

2005-2008 Service Plan Goals	Comparison to 2004-2007 Service Plan
1. Professionalization of the Residential Construction Sector	New goal, not contained in the 2004-2007 Service Plan. This new goal is consistent with the general direction of last year's goal of "Fostering an improvement in the quality of residential construction", and shares several of the same objectives.
2. Informed and protected consumers	Refinement of last year's goal of "Strengthening consumer protections for homebuyers and homeowners" with new objectives.
3. Continued viability of the home warranty insurance system	New goal, not contained in the 2004-2007 Service Plan. New objectives are also identified.
4. Become a strategic centre for building industry research.	Expansion of last year's goal of "Increased research and education" with new objectives.
5. An aligned, focused and capable organization	New goal, not identified in the 2004-2007 Service Plan. New objective also identified.

Performance Measures:
Each performance measure presented in last year's Service Plan was examined for its applicability under one of the five goals of the 2005-2008 Service Plan. Given the strong linkages between the 2005-2008 and 2004-2007 Service Plans goals, nearly all of the existing performance measures continue to relate strongly the HPO's overall goals and objectives. As well, several new performance measures were added to the 2005-2008 Service Plan to ensure that progress continues to be made towards meeting each of the five goals.

One performance measure from the 2004-2007 Service Plan related to investigations resulting in voluntary compliance has been replaced with an improved measure. Further explanation regarding changes to the performance measures is provided at the end of this section under "Description of Performance Measures".

GOAL 1 Professionalization of the Residential Construction Sector

Objectives

- "Raise the bar" for B.C.'s Licensed Residential Builders by introducing appropriate minimum education and training requirements as a condition of licensing which takes into account the differing needs for home builders and developers.
- More effectively address the problem of black-market building activity while continuing to protect the ability and right of owners to build their own homes for their own personal use.
- Move to an alternative model to address infractions under the *Homeowner Protection Act*, which will allow for stronger compliance with the *Act* and regulations.
- Seek appropriate authority to better perform industry gate-keeping duties through the HPO's powers to refuse, suspend and cancel licences.
- Assess the possible introduction of a builder rating system, or post more information on the public registry to allow consumers to make a more informed choice of their Licensed Residential Builder.

Strategies

- Develop proposals for implementing a plan for increasing professionalism of the residential construction industry in cooperation with the Ministry and in consultation with all interested parties, in particular the Canadian Home Builders Association, the Urban Development Institute, the Industry Training Authority and Licensed Residential Builders.
- Consult with industry and consumer stakeholders on implementation options including both regulatory and non-regulatory measures.
- Seek legislative and/or regulatory authority where required to help implement key objectives.
- Continue cooperation and information sharing with other organizations when appropriate to address the black-market builder situation.

PERFORMANCE MEASURES		TARGETS		
	ACTUAL/BASELINE	2005/06	2006/07	2007/08
Builder satisfaction with the licensing system	83% very or somewhat satisfied in 2003/2004	88%	Not surveyed: surveyed once every two years	90%
Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption	72% very or somewhat effective in 2003/2004	75%	Not surveyed: surveyed once every two years	80%

GOAL 2 Informed and Protected Consumers*

Objectives

- Increase communications and education initiatives to better inform and protect consumers, particularly in the following areas:
  - consumers' understanding of the home warranty insurance product, the home warranty insurance system as well as the role and obligations of all participants in this area
  - proper maintenance of new homes
  - a knowledgeable home buying process, and
  - an understanding of homeowner obligations with respect to the protections under the *Homeowner Protection Act*
- Develop an established standard of information available to 100% of home-buyers and homeowners.
- Ensure that homeowners are able to keep their homes who might have otherwise lost them as a result of the cost of building envelope repair.

Strategies

- Develop and distribute new information products and related education initiatives for consumers.
- Create and implement a plan for increasing homeowner satisfaction levels in the areas of warranty insurance, quality of home construction and the building process.
- Continue to provide no-interest repair loans and PST Relief Grants to eligible owners of leaky homes.

PERFORMANCE MEASURES		TARGETS		
	ACTUAL/BASELINE	2005/06	2006/07	2007/08
Homebuyer awareness of consumer protections under the *Homeowner Protection Act*	73% awareness of licensing and 45% awareness of warranty insurance in 2002/2003	Not surveyed: surveyed once every two years	90% awareness of licensing and 70% awareness of warranty insurance	Not surveyed: surveyed once every two years
Homeowner satisfaction with home warranty insurance	83% satisfaction in 2002/2003	Not surveyed: surveyed once every two years	90% satisfaction	Not surveyed: surveyed once every two years
Homeowner satisfaction with quality of home	93% satisfaction in 2002/2003	Not surveyed: surveyed once every two years	95% satisfaction	Not surveyed: surveyed once every two years
Homeowner satisfaction with the building process	Establish baseline in 2004/05 and set targets	Not surveyed: surveyed once every two years	Target met	Not surveyed: surveyed once every two years
Recovery of home values following building envelope renovation	77% or more of repaired homes have recovered 90% or more of the value of the cost of repairs in the assessed value of their homes in 2003/2004	80%	85%	90%
Reconstruction Loan default rate	1.2% in 2003/2004	1% or less	1% or less	1% or less

* Consumers who have protection under the *Homeowner Protection Act* include:

- buyers of new homes
- subsequent buyers of newly-built homes with home warranty insurance still remaining
- subsequent owners of owner-built homes which are still within 10 years of first occupancy
- owners of homes with building envelope renovation warranty insurance, and
- subsequent owners of homes that have building envelope renovation warranty insurance still remaining.

GOAL 3 Continued Viability of the Home Warranty Insurance System

Objectives

- Ensure the availability and affordability of home warranty insurance for consumers and the industry.

Strategies

- Preserve the uninterrupted availability of home warranty insurance in British Columbia by developing and implementing a strategy to ensure the availability and affordability of home warranty insurance.
- Work with warranty insurance providers and brokers, the Insurance Council of B.C. and the Financial Institutions Commission to ensure the continued integrity of the home warranty insurance system.
- Seek appropriate authority to regulate areas related to performance that are not currently covered by the Insurance Council of B.C. and the Financial Institutions Commissions if it relates to home warranty insurance.

PERFORMANCE MEASURES		TARGETS		
	ACTUAL/BASELINE	2005/06	2006/07	2007/08
Percentage of homes built under the *Homeowner Protection Act* with warranty insurance claims is within industry norms	5% based on proxy data collected in 2002/2003	4% or less homes with claims	3% or less homes with claims	3% or less homes with claims
Builder rating of their overall relationship with their warranty provider	87% rated as good or excellent in 2003/2004	90% rated as good or excellent	Not surveyed: surveyed once every two years	92% rated as good or excellent
Homeowner satisfaction with home warranty insurance	83% satisfaction in 2002/2003	Not surveyed: surveyed once every two years	90% satisfaction	Not surveyed: surveyed once every two years

GOAL 4 Become a Strategic Centre for Building Industry Research

Objectives

Provide leadership in the area of research and education with respect to:

- helping to prevent future construction failures province-wide
- helping to ensure that new technologies are appropriately integrated in the industry and do not have a negative impact on building envelopes or other components
- having a voice in the construction industry on related issues such as skills training and building practices
- establishing partnerships with industry and other partners when appropriate to bring about efficient and cost-effective building science research and education which is both current and relevant to the residential construction industry
- helping to facilitate technological change which supports quality construction, and
- informing consumers of successes which translate into better products for consumers.

Strategies

- Develop and implement a strategic plan for research and education and set new performance measures and targets where necessary.
- Work with industry and consumer groups to identify issues and priorities for research and education projects.
- Work with partners to develop and deliver education and training initiatives.
- Maximize resources through partnerships and collaboration.
- Increase involvement in residential construction sector-related initiatives.

PERFORMANCE MEASURES	ACTUAL/BASELINE	TARGETS 2005/06	2006/07	2007/08
Research results disseminated through symposiums, seminars or workshops	HPO funded research profiled at 19 industry education sessions; initiated Building Smart seminar series in 5 cities during 2002/03 to 2003/04	One major symposium or publication and 20 educational sessions during 2004/05 to 2005/06 period	One major symposium or publication and 20 educational sessions during 2006/07 to 2007/08 period	
Research results incorporated into building standards and best practices	HPO representation on National Building Code Committees, and CSA Strategic Committee on Building Products and Systems	Continued involvement in national and provincial building code processes	Continued involvement in national and provincial building code processes	Continued involvement in national and provincial building code processes
Resources leveraged by the HPO through other funding partners	Contribution by partners represented 42% of total project funding in 2003/2004	At least twice the amount invested by HPO leveraged through partnerships	At least twice the amount invested by HPO leveraged through partnerships	At least twice the amount invested by HPO leveraged through partnerships

GOAL 5 An Aligned, Focused and Capable Organization

Objectives

- Ensure that the Homeowner Protection Office remains lean, agile, rigorous and resourced.

Strategies

- Board of Directors, CEO and members of the management team will develop and implement a plan and specific strategies.
- Set performance measures, collect baseline data and establish targets.

PERFORMANCE MEASURES		TARGETS		
	ACTUAL/BASELINE	2005/06	2006/07	2007/08
Timeliness of licensing decisions on completed applications	3.6 business days	3 business days or less	3 business days or less	3 business days or less

Description of Performance Measures

GOAL 1 Professionalization of the Residential Construction Sector

Builder satisfaction with licensing — This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Baseline data for this measure was obtained through a 2003/2004 survey of all licensed builders in the province. Subcomponents of satisfaction being tracked include: fairness of the rules/requirements, application and renewal process, and timeliness of licensing decisions. The next survey of Licensed Residential Builders will be carried out in the 2005/2006 fiscal year.

Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption — This is a new measure introduced into the 2005-2008 Service Plan. Baseline data for this measure was obtained through a 2003/2004 survey of all licensed builders in the province, with the next survey to be carried out in the 2005/2006 fiscal year. This measure replaces the previous measure "Investigations resulting in voluntary compliance" which will not be continued due to difficulties in achieving consistency in data reporting.

GOAL 2 Informed and Protected Consumers

Homebuyer awareness of consumer protections — This measure tracks new homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Baseline data for this measure was collected through a survey of prospective buyers of new homes in 2002/2003. The results of the 2004/2005 survey will be reported in the 2004/2005 Annual Report.

Homeowner satisfaction with warranty insurance — This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Baseline data was obtained from a 2002/2003 survey of homeowners with warranty insurance. The results of the 2004/2005 survey will be reported in the 2004/2005 Annual Report.

Homeowner satisfaction with quality of product — This is a new measure introduced in the 2005-2008 Service Plan. It tracks homeowner satisfaction with the quality of the construction of their home. Baseline data was obtained from a 2002/2003 survey of homeowners with warranty insurance. The results of the 2004/2005 survey will be reported in the 2004/2005 Annual Report.

Homeowner satisfaction with the building process — This is a new measure introduced in the 2005-2008 Service Plan. It tracks homeowner satisfaction with the building process. Baseline data will be collected in the 2004/2005 homeowner survey and will be reported in the 2004/2005 Annual Report.

Recovery of homes' values following building envelope renovation — This measure, tracked annually, monitors the improvement of assessed values of homes with repair loans following the completion of building envelope renovations. The measure is calculated as the percentage of homes that have recovered 90% or more of the cost of repairs in the most recent assessed values of the homes.

Reconstruction loan default rate — This measure tracks the effectiveness of the Homeowner's Reconstruction Loan Program in helping to ensure that homeowners don't lose their homes as a result of building envelope renovation costs. Loans are issued to eligible homeowners and housing co-operatives. The data used for this measure is the number of loan defaults among homeowners with reconstruction loans, and is benchmarked against residential mortgage default rates in B.C.

GOAL 3 Continued Viability of the Home Warranty Insurance System

Homes with warranty insurance claims — This measure is an important indicator of the quality of residential construction in British Columbia in terms of the number of claims made by homeowners for repairs under home warranty insurance. The number of claims is compared to the total number of homes enrolled during the specific period. In 2002/2003 proxy data from the homeowner survey was used in lieu of data from warranty providers. Homeowner survey data will again be used for this measure in 2004/2005. This performance measure will be benchmarked against warranty insurance claims data from other jurisdictions.

Builder rating of their overall relationship with their warranty provider — This is a new measure in the 2005-2008 Service Plan. Subcomponents of satisfaction being tracked include: satisfaction with ease of the application process for coverage, cost of the warranty insurance and handling of complaints or claims from consumers. Baseline data for this measure was obtained through a 2003/2004 survey of all licensed builders in the province, with the next survey to be carried out in 2005/2006.

Homeowner satisfaction with warranty insurance — Same measure as described under Goal 2: Informed and Protected Consumers. This measure has been repeated under Goal 3 as homeowner satisfaction is also a valid indicator of the viability of the home warranty insurance system from the perspective of consumers.

GOAL 4 Become a Strategic Centre for Building Industry Research

Research results disseminated — Recognizing the critical role of ensuring that research results are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions.

Research results incorporated into building standards and best practices — This measure looks at the effectiveness of the HPO in ensuring that results of research projects are incorporated into standards, codes and best practices. The performance measure tracks the HPO's participation on national and provincial code committees, and involvement in the development of best practice guides and training courses.

Leveraging of additional research and education funding — This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for active research and education projects.

GOAL 5 An Aligned, Focused and Capable Organization

Timeliness of licensing decisions — This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions on completed applications. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders. This performance measure will be benchmarked against other jurisdictions that register or license residential builders.

Financial Outlook

A forecast of revenues and expenditures for 2004/2005 through 2007/2008 is shown in Table 1 (page 21). The forecast for residential builder licensing and construction activity can be found in Table 2 (page 21) and a financial summary of the Reconstruction Loan Program exists in Table 3 (page 22). The financial plan is driven by two main guiding principles, which are as follows.

1. The HPO is self-sustaining from its own revenues.

Key assumptions for the financial plan, specifically the forecast of builder license fees and new construction activity as shown in Table 2, determine the funding available to operate HPO's programs. Over the forecast period, it is projected that demand for new housing will remain strong, with a slight moderation in 2005/2006 as the marketplace adjusts to higher interest rates and rising construction costs. The continuation of a strong housing market will provide incentives for builders to become licensed by the HPO, renew their existing licences, and participate in meeting the demands of the housing market. This activity will generate a steady stream of revenues which will be accompanied by a demand for more services in key strategic areas.

2. The Homeowner's Reconstruction Loan Program must provide financial assistance for all eligible homeowners.

The Reconstruction Loan Program experiences surpluses and deficits on a year-over-year basis. Fluctuations occur as a result of many factors affecting the demand for the program and the availability of funds required for the reconstruction loans. These factors are detailed below.

- **Demand for Financial Assistance**

  Demand is driven by owners of leaky homes who are eligible for the program. The program provides no-interest repair loans and prevents the possibility of their losing their homes. The demand for financial assistance increased sharply at the onset of the program in 1998 to 2001, then declined from 2002 to 2003 and then increased unexpectedly in 2004/2005. It is anticipated that the current increased demand will continue as more homeowners apply for the Reconstruction Loan Program. The average per-unit value of the reconstruction loans is increasing and it is anticipated that it will continue on its upward trend reflecting increasing construction costs and the extensive repairs needed for some buildings.

- **Supply of Funds**

  Financial assistance in the form of no-interest loans is provided to eligible homeowners. The no-interest loan program is funded by a $750 reconstruction levy which is collected from Licensed Residential Builders on the construction of each new multi-unit home constructed in the coastal climate zone.

  Surpluses and deficits occur due to fluctuations in the flow of reconstruction levies collected and the demand for financial assistance. Surpluses are used in the following years to meet increasing demands for financial assistance. The Province of British Columbia loans the HPO bridge financing which is needed to fund the gap between the incoming reconstruction levies and the outflow of funds in the form of financial assistance for the loans program. It is anticipated that the HPO will repay the bridge financing loans provided by the Province over time with incoming reconstruction levies collected in the ensuing years.

- **Demand for Financial Assistance**

  The continuation of the strong housing market makes it easier for homeowners to sell their repaired homes and repay their no-interest loans. This condition results in higher loan discount recoveries, increased HPO revenues and a reduced HPO interest subsidy expense.

- **Cessation of Federal Government Participation**

  The Reconstruction Loan Program expenditures were previously shared equally by the provincial and federal governments until October 2003, when the federal government's set contribution limit of $27.7 million was reached. This has created a deficit position in the program and requires the HPO to rely exclusively on the Province of British Columbia to provide bridge financing to the HPO for this program until the $750 per unit levy collected repays the HPO's loan from the Province. All eligible homeowners continue to have access to the Reconstruction Loan Program.

Cost-Effective Partnerships

A joint service delivery model involving other partners continues to minimize the HPO's program delivery costs. The licensing and home warranty insurance program is delivered in partnership with private-sector insurance companies approved by the Financial Institutions Commission to provide home warranty insurance in British Columbia.

Financial institutions continue to play a major role in the Reconstruction Loan Program by providing principal loan amounts to enable homeowners to finance repairs to their leaky homes. When a financial institution provides the principal on a loan, the HPO pays the interest on the loan to the financial institution on behalf of the homeowner.

The HPO's research and education programs continue to be funded by builder license fees. To maximize available funding for ongoing research and education projects, the HPO works with key industry groups and other levels of government to lever and pool additional funding.

Risk and Sensitivities

The implementation of the Futures Report may result in changes in program delivery and budget allocations.

Interest rates and the economy continue to be major risks and sensitivities for the HPO. A sharp rise in interest rates or a downturn in the economy and the housing market may have the following effects:

- reduced revenues from builder licensing fees as a result of lower housing starts and consequently a decrease in new and renewed license applications
- a decrease in the HPO's loan discount recoveries as homeowners experience difficulty in disposing of their repaired units due to a weaker housing market
- an increased interest subsidy and interest expense in the Reconstruction Loan Program, and
- an extension of the time horizon for the HPO to repay the loan from the Province arising from bridge financing provided to fund shortfalls in the Reconstruction Loan Program.

Table 1: Homeowner Protection Office Budget Forecast

	2002/2003 Actual (000's)	2003/2004 Actual (000's)	2004/2005 Forecast (000's)	2005/2006 Budget (000's)	2006/2007 Budget (000's)	2007/2008 Budget (000's)
REVENUE						
Builder license fees	$2,469	$2,935	$2,680	$2,540	$2,615	$2,615
Reconstruction fee	7,150	10,224	13,500	12,600	13,500	13,500
Provincial contribution for program	3,982	2,626	4,818	4,800	4,800	4,800
Federal contribution for loan program	6,890	4,490	0	0	0	0
Interest and other	120	135	144	265	288	439
Loan discount recoveries*	2,833	3,929	5,995	6,137	6,340	6,533
Total Revenue	$23,444	$24,339	$27,137	$26,342	$27,543	$27,887
EXPENDITURES						
Reconstruction loan grants	$6,827	$6,616	$8,109	$8,053	$6,081	$6,081
PST Relief Grants	3,107	2,501	4,693	4,675	4,675	4,675
Interest subsidy for no-interest loans	4,353	5,063	4,876	9,889	11,460	12,495
Salaries and wages	2,232	2,128	2,248	2,374	2,374	2,374
Loss provision on no-interest loans	1,103	892	0	0	0	0
Operating expense	1,527	1,664	1,679	1,665	1,719	1,688
Interest expense	647	761	717	1,177	1,707	2,009
Research studies and education	121	77	125	171	171	171
Total Expenditures	$19,917	$19,702	$22,447	$28,004	$28,187	$29,493
Surplus (Deficit) – All Programs	$3,527	$4,637	4,690	($1,662)	($644)	($1,606)
Surplus (Deficit) – Excluding Loan and PST Relief Grant Programs	$394	$144	$77	$0	$0	$0

*The non-cash accounting entry required to amortize HPO funded loans appearing on the balance sheet of the HPO.

Table 2: Residential Builder Licensing and Construction Activity Forecast

The budget plan is based on the following forecast for licensing and construction activity for both new home construction and building envelope renovations in British Columbia.

	2002/2003 Actual	2003/2004 Actual	2004/2005 Forecast	2005/2006 Budget	2006/2007 Budget	2007/2008 Budget
New residential builder licences	1,035	1,156	800	700	700	700
Residential builder licence renewals	2,418	2,847	2,840	2,840	2,840	2,840
New homes constructed – subject to $25 fee	20,634	27,414	31,200	28,000	31,000	31,000
New homes constructed – subject to $750 levy	9,534	13,632	18,000	16,800	18,000	18,000

Table 3: Reconstruction Loan Program

The budget plan is also based on the following actuals and forecast for the Reconstruction Loan Program over the first 10 years of the program.

10 Year Forecast
($ Millions)

	98/99 Actual	99/00 Actual	00/01 Actual	01/02 Actual	02/03 Actual	03/04 Actual	04/05 Forecast	05/06 Forecast	06/07 Forecast	07/08 Forecast
Total revenue	$ 0.1	$ 0.9	$12.4	$ 13.9	$ 16.9	$ 18.7	$ 19.6	$ 18.8	$ 19.9	$ 20.3
Total expenditure	($ 1.3)	($ 5.2)	($11.9)	($ 14.7)	($ 13.8)	($ 14.3)	($ 15.0)	($ 20.5)	($ 20.6)	($ 21.9)
Surplus (Deficit)	($ 1.2)	($ 4.3)	$ 0.5	($ 0.8)	$ 3.1	$ 4.4	$ 4.6	($ 1.7)	($ 0.7)	($ 1.6)
Total loans outstanding	$ 3.7	$27.9	$78.7	$130.0	$154.6	$172.4	$184.3	$203.3	$218.6	$231.6
Due to Province	$ 8.0	$ 9.9	$15.0	$ 24.8	$ 25.3	$ 25.2	$ 31.4	$ 38.3	$ 45.6	$ 53.3

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